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SENSITIVE
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STATE FOR WHA/CAR (ACADIEUX)(VDEPIRRO)(WSMITH)
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SANTO DOMINGO FOR FCS AND FAS
TREASURY FOR ERIN NEPHEW
MONTREAL FOR USICAO

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ICAO, KCOR, KIPR, XL, JM
SUBJECT: JAMAICA: JANUARY ECONOMIC REVIEW - HARDSHIP CONTINUES

REF: KINGSTON 27 (121853Z JAN 09)

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11. (SBU) SUMMARY:

-- Jamaica's loss making national airline will begin an aggressive restructuring exercise next month in preparation for divestment later this year.

-- The Jamaican Parliament has approved a four percent increase in the national budget to USD 6 billion.

-- Finance Minister Audley Shaw has continued to reap significant rewards from his early decision to reengage multilaterals.

-- The Jamaican dollar has continued on its downward spiral, depreciating by a further 6 percent since the start of 2009.

-- Remittances to Jamaica fell by double digits for the last two months of 2008, suggesting that the most resilient source of foreign exchange is being impacted by the global crisis.

-- Jamaica's Tourism Minister Edmund Bartlett has attributed Jamaica's relatively strong performance to the country's great service and brand recognition.

-- The UK Privy Council has given National Commercial Bank the green light to close the accounts of the embattled alternative investment scheme Olint.
End Summary.

Aviation - Air Jamaica Restructures

12. (SBU) Jamaica's beleaguered national airline, Air Jamaica (AJ), has announced an ambitious restructuring exercise in an apparent move to prepare the airline for divestment later this year. AJ, which lost USD 170 million last year, will drop loss making routes -- Miami, Atlanta, Los Angeles and Grand Cayman -- starting this month. This will allow the airline to reduce its fleet of aircraft to nine from 15, but also could result in job cuts of up to 600 workers across all departments. President Bruce Nobles said the move was geared at eliminating cash losses by: (1) exiting loss making markets and bumping up capacity in others; (2) improving aircraft utilization by more than 25 percent; and, (3) executing efficiency and productivity plans, which should bring costs in line

with international standards. Only a week ago, Minister without Portfolio in the Ministry of Finance Don Wehby disclosed that the divestment team had met with the two bidders short listed by the team. Wehby suggested that both bidders had interest in the airline business and are apparently U.S. based.

Aviation: Montreal Convention Effectuated

13. (SBU) Following a Demarche to Ministry of Foreign Affairs and Foreign Trade at the beginning of January (reftel), the Jamaican Parliament has passed a bill giving effect to the Montreal Convention. The bill, which received bi-partisan support, was piloted by Minister of Transport and Works, Mike Henry. Henry explained that the Convention sought to modernize the documentation relating to the international carriage of persons, baggage and cargo. The Opposition said the bill represented an advancement and modernization of international air transport arrangements and provided a very clear framework for development and growth of the sector.

Finance - Budget Revision amidst Rising Deficit

14. (SBU) The Jamaican Parliament has approved a four percent increase in central government's budget to USD 6 billion. Most of the USD 220 million increase will go toward capital expenditure for road improvements. A significant portion of the recurrent expenditure has been allocated to the Ministry of Education to settle a wage claim by teachers, who were able to negotiate the 40 percent increase required to take them to within 80 percent of the private sector. Finance Minister Audley Shaw conceded that the country will miss its 4.5 percent fiscal deficit. However, he thinks this should not have an adverse effect on the country as the news already has been communicated to officials at the

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multilaterals, who understood, given the tenuous economic climate. A senior technocrat at the Ministry of Finance, Courtney Williams, told emboffs that the deficit should come in at about 5.5 percent, which should not be surprising given the global environment. He said the revenue side continues to be a real challenge given the slide in consumption and payroll taxes. Williams opined that while things were tenuous, they were not falling apart.

15. (SBU) But Williams' optimism could be overstated, given that the fiscal deficit for April to December, 2008 was USD 685 million -- well above the USD 565 million target. This deviation was largely due to the 12 percent slump in revenue, as consumption and bauxite-related taxes continue to hemorrhage. Consumption taxes were off USD 145 million, a direct result of the general economic downturn. Earnings from the bauxite levy were down USD 40 million relative to target, due to a combination of depressed prices and declining output. A USD 64 million deviation in wages and salaries was the major contributor to increased expenditure. With revenues expected to remain on its downward trajectory, the GOJ will be forced to fill the financing gap with loans from the domestic market. This is sure to keep interest rates high, stifling the very investment required to keep the economy afloat.

Finance - Multilateral Funding Soars

16. (SBU) Finance Minister Audley Shaw's decision to reengage multilateral agencies continues to bear rich rewards, as the country has secured a further USD 429 million in funding. This latest amount brings to almost USD 1 billion the amount Shaw has been able to secure since he took over the reigns of the Ministry just over a year ago. Last week the GOJ received USD 100 million from the World Bank at a rate of about two percent per annum over 30 years. This brings to USD 357 million the amount of debt outstanding to the World Bank and is expected to support Jamaica's efforts to reduce the country's high debt burden as well as improve fiscal sustainability. But Shaw has been even more successful in his negotiation with the IDB, which loaned Jamaica a further USD 329 million a week earlier. The loans comprise a USD 300 million

liquidity support program for commercial banks; a USD 14 million supplementary loan for primary education; and, USD 15 million for a social safety net program. These funds are timely, as they should help the GOJ to pay the USD 250 million Eurobond due in February. The remaining funds, when they hit the market, should boost supply and by extension slow the slide in the local currency.

Finance - Currency Continues to Slide

17. (SBU) Instability continues to beset Jamaica's foreign exchange market, with the local currency sliding by over six percent since the start of 2009. The continued instability has occurred against the background of moral suasion and draconian monetary policies, including a hike in interest rates to 25 percent. The central bank also has been supplying foreign exchange from its declining stock of net international reserves (NIR), which has now dipped below USD 1.8 billion. With the country depending on imports for almost 70 percent of its goods, distributors already have started to pass on the exchange rate differential to consumers, nullifying the effects of falling commodities prices. Therefore, while price increases are expected to moderate from the almost 17 percent registered in 2007 and 2008, they could well remain above 10 percent in 2009.

Economy: Remittances

18. (SBU) Jamaica's most resilient source of foreign exchange, remittances, is beginning to suffer the effects of the global financial crisis. While total remittances for 2008 grew by 3.5 percent to USD 2 billion, there was a marked downturn during the last quarter of the year. Remittances for October to December fell by 10.5 percent, with remittances falling for all three months. However, the most dramatic decline was observed in November, when the flow decreased by 17 percent. Remittances for December fell by 12.2 percent. Head of International Marketing at Western Union (which controls almost 60 percent of market share), Noel Greenland, told emboffs that the steep drop was directly related to the worsening conditions in Jamaica's main source market, the U.S. (60 percent of all remittances). However, he thinks the impact is really on the discretionary portion of the flow, and this is

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expected to continue until there is a return to at least stability in the U.S. That said, Greenland remains worried about the likely impact of the downturn in the UK economy (second largest source market).

Economy: Tourism Minister Upbeat Despite Downturn

19. (SBU) Jamaica's chief tourism salesman, Minister Edmund Bartlett, remains upbeat about the country's tourism prospects, despite worsening economic conditions. And Bartlett's optimism appears to be bearing fruit, as the country has maintained its market share in the U.S., while increasing its share of the growing Canadian market. In November 2008, arrivals from Canada jumped by 53 percent. Bartlett has attributed this development to strong marketing, with the country pumping an additional USD 3 million to USD 18 million into its marketing effort. Bartlett, who has been on a number of road shows, said that Jamaica's success can be attributed to its strong product, led by its great service and brand recognition.

Investment Schemes - Olint Suffers another Blow

110. (SBU) The embattled alternative investment scheme Olint Corporation has suffered another major blow in its bid to maintain legitimacy, as the UK-based Privy Council has given National Commercial Bank (NCB) the green light to close the scheme's accounts - Olint's lawyers did not appear at the hearing. In this regard, the Privy Council has overturned the decision of the local courts, which had ruled that Olint's accounts at NCB must not be closed. NCB had taken the decision to close Olint's accounts on the grounds that Olint did not comply with certain requests such as the filing

of audited financial statements. The Privy Council said it was clearly of the view that the bank's reasons for wanting to close the accounts were valid and that it was entitled to close them. This was the second major setback for Olint in 2008, as lawyers also were unable to get the courts in the Turks and Caicos to lift a freeze order on the scheme's assets.

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